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ACTION ARA-17

INFO OCT-01 ADP-00 IGA-02 EUR-25 AID-20 CIAE-00 COME-00

EB-11 FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07

OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01 STR-08 CEA-02

DODE-00 PM-07 H-02 L-03 NSC-10 PA-03 PRS-01 SS-15

USIA-12 RSR-01 /182 W

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R 141810 Z JUN 73

FM AMEMBASSY LIMA

TO SECSTATE WASHDC 0000

INFO AMEMBASSY BOGOTA

AMEMBASSY CARACAS

AMEMBASSY LA PAZ

AMEMBASSY QUITO

AMEMBASSY SANTIAGO

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E. O. 11652: N/ A

TAGS: EAID, PE, VE, CO, EC, CI, BL

SUBJ: ANDEAN PACT: PROPOSAL FOR U. S. ASSISTANCE

FY 74

REF: A. LIMA A-121, 5/15/73

B. LIMA A-136, 5/30/73

JOINT STATE/ AID

1. SUMMARY: ANDEAN PACT DEVELOPMENT STRATEGY BANKING
INCREASINGLY ON JOINT NEGOTIATING STRENGTH OF SIX- COUNTRY
REGION. GOAL IS " JUST" DIVISION OF BENEFITS FROM TRADE
AND OTHER ECONOMIC RELATIONS WITH ADVANCED COUNTRIES.
TRADITIONAL FOREIGN DEVELOPMENT ASSISTANCE, IF EXTENDED
WITHOUT RECOGNITION OF THIS OBJECTIVE, IS SUSPECTED OF
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HIDDEN MOTIVES. PROPOSED BELOW IS ASSISTANCE PROGRAM FOR FY74 WHICH FITS INTO THIS ANDEAN PACT STRATEGY. TOTAL COST \$500,000. THIS IS MORE THAN LINE ITEM IN CONGRESSIONAL PRESENTATION FY FY74 ASSISTANCE TO ANDEAN PACT, BUT JUSTIFIED BY MUTUAL ECONOMIC BENEFITS, INCLUDING POSITIVE EFFECT ON U. S. EXPORTS. COMMENTS AND INSTRUCTIONS REQUESTED. END SUMMARY.

2. JUNTA AND ANDEAN DEVELOPMENT CORPORATION (CAP) HAVE SUBMITTED REQUESTS FOR VARIOUS TYPES OF ASSISTANCE. SOME WOULD HAVE MORE MERIT FROM U. S. POINT OF VIEW THAN OTHERS. FOLLOWING ARE OUTLINES OF THREE PARTICULARLY PROMISING PROGRAM ACTIVITIES. ALL THREE COULD BE CHanneLED THROUGH JUNTA. NOTEWORTHY THAT EVEN WITH THIS PROGRAM, U. S. ASSISTANCE TO JUNTA WOULD BE LESS THAN HALF OF CANADIAN INPUT.

3. AS FIRST ACTIVITY, JUNTA REQUESTING U. S. TECHNICAL ASSISTANCE IN ASSESSMENT WORLD- WIDE TRENDS WHICH COULD AFFECT DESIGN OF SECTORIAL PROGRAMS OF INDUSTRIAL DEVELOPMENT. JUNTA UNDER PRESSURE TO PREPARE PROPOSALS IN DIVERSE FIELDS OF PRODUCTION, WITHOUT HAVING ADEQUATE INFORMATION ABOUT INTERNATIONAL DEMAND AND SUPPLY TRENDS. \$300,000 REQUESTED.

A. OPPORTUNITY EXISTS TO INFLUENCE ANDEAN PACT DEVELOPMENT PLANNING IN DIRECTION WHICH WOULD COMPLEMENT U. S. ECONOMIC POLICY OBJECTIVES TO MUTUAL BENEFIT OF BOTH. FUEL AND RAW MATERIAL SHORTAGES, POLLUTION PROBLEMS, TECHNOLOGICAL INNOVATIONS, ETC., ARE ALTERING IMPORT NEEDS IN THE U. S. AND OTHER ADVANCED COUNTRIES. FOR EXAMPLE, TWO U. S. FIRMS CURRENTLY CONSIDERING AMMONIA MANUFACTURE IN ECUADOR OR VENEZUELA, WHICH HAVE EXTENSIVE NATURAL GAS RESOURCES, FOR SUPPLY OF U. S. MARKET. OTHER EXAMPLES ARE BTX MANUFACTURE FOR LEAD- FREE GASOLINE AND CHLORINE- BASED MANUFACTURING PROCESSES. SIMILAR POTENTIAL TIE- IN TO FILL MUTUAL ANDEAN- U. S. NEEDS ALSO FOUND IN OTHER SECTORS.

B. ASSISTANCE COULD IN PART COME DIRECTLY FROM USG AGENCIES. AS EXAMPLE, CURRENT \$12,000 AID- FINANCED CO- OPERATION FROM TVA IN FERTILIZER FIELD IS PROVING EXCEED- LIMITED OFFICIAL USE

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INGLY PRODUCTIVE. PROGRAM COULD RENDER FOLLOWING BENEFITS. FIRST, OPEN TWO- WAY INFORMATION FLOW TO MAKE JUNTA AWARE OF WORLD- WIDE COMPETITIVE CONDITIONS AND MAKE U. S. FIRMS AWARE OF ANDEAN SECTORIAL PROGRAM PLANNING AND OF TERMS OF REFERENCE IN CURRENT INVESTMENT AND TECHNOLOGY TRANSFER NEGOTIATIONS. SECONDLY, PUT THE U. S. IN BETTER COMPETITIVE POSITION IN PROMOTION OF EQUIPMENT AND TECHNOLOGY EX-

PORTS. THIRDLY, HELP OPEN UP SOURCES OF NEEDED U. S. IMPORTS.

4. SECOND PROGRAM ACTIVITY WAS REQUESTED BY CAP AND WOULD COVER FEASIBILITY STUDY OF PLANT AND EQUIPMENT LEASING OPERATION. LEASING VENTURE COULD DRAW ON EXPERIENCES OF PUERTO RICO'S PRIDCO, BUT RESPOND TO PARTICULAR CURRENT CONDITIONS AND NEEDS IN INDIVIDUAL ANDEAN COUNTRIES. \$60,000 REQUESTED.

A. CAF BELIEVES THAT LEASING OR LEASE- BACK ARRANGEMENTS WOULD ENABLE LOCAL PRIVATE INVESTORS TO ADVANCE LARGE INDUSTRIAL PROJECTS WITHOUT OVEREXTENSION OF DEBT-EQUITY RATIO.

B. ADVANTAGES ALSO NOTABLE FOR FOREIGN INVESTORS. LEASING PLANT AND EQUIPMENT, INSTEAD OF MAKING RESPECTIVE DIRECT INVESTMENT, WOULD REDUCE RISK EXPOSURE AND NEED FOR INSURANCE.

C. FEASIBILITY STUDY WOULD FOCUS ON BOTH TECHNICAL AND INSTITUTIONAL ASPECTS. U. S. COOPERATION IN PLANNING OF LEASING VENTURE COULD FAVOR U. S. SOURCING OF EQUIPMENT AND TECHNOLOGY. SHARED USE AND INTERCONNECTION OF COMPUTER FACILITIES COULD BE INCLUDED IN FEASIBILITY STUDY.

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5. THIRD PROGRAM ACTIVITY: BOTH JUNTA AND CAF HAVE REQUESTED COOPERATION IN SPONSORING PROMOTIONAL SEMINARS IN THE U. S. REPAIRS OUTLINED SPANISH PROGRAM MAY 28-JUNE 15 AND ALSO PROGRAM PROPOSAL FOR U. S. \$140,000 REQUESTED. SPANISH SEMINAR PROVED QUITE SUCCESSFUL AND MANY BUSINESSMEN FROM ANDEAN COUNTRIES PARTICIPATED AT OWN EXPENSE. SEMINARS NOW SCHEDULED ALSO IN MEXICO (AUGUST) AND GREAT BRITAIN (EARLY 1974). RECOMMEND THAT THREE U. S. PROMOTIONAL PROGRAMS BE SCHEDULED BY INDUSTRIAL SECTOR. CHOICE OF SPECIFIC PROGRAM MUST AWAIT ANDEAN PACT APPROVAL (WITH PARTICIPATION OF VENEZUELA) OF RESPECTIVE SECTORIAL PROGRAMS. AS NOTED IN REPAIRS, U. S. EXPORT EXPANSION WOULD BE INTEGRAL PART OF SEMINAR OBJECTIVES.

6. RATIONALE: THE ANDEAN APPROACH TO NEGOTIATION AND TO EC-
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NOMIC DEVELOPMENT IS FINDING AN ECHO IN OTHER LESS DEVELOPED COUNTRIES AND WILL GRADUALLY AFFECT BUSINESS CONDITIONS BEYOND ANDEAN REGION. AS THESE ATTITUDES HARDEN, AS WILL ALMOST SURELY BE THE CASE, THE U. S. WILL SERIOUSLY HAVE TO STUDY POTENTIAL EFFECTS ON U. S. EXPORTS AND OTHER ECONOMIC REPERCUSSIONS. ABOVE TECHNICAL ASSISTANCE APPROACH, HOWEVER, WOULD ALSO BE EFFECTIVE RESPONSE. IT WOULD ENABLE US TO ANTICIPATE AND TO SOME EXTENT TAKE ADVANTAGE OF THESE CHANGES IN ATTITUDE. IT WOULD ALSO PRODUCE RAPID FEED-BACK FOR POLICY FORMULATION.

7. THE AVAILABILITY OF RISK CAPITAL IS BECOMING STEADILY LESS CRITICAL WITH APPARENT READY AVAILABILITY OF FOREIGN PRIVATE BANK LENDING TO GOVERNMENTS SUCH AS GOP. FOREIGNERS ARE NEEDED TO SUPPLY MANAGEMENT KNOWHOW, TECHNOLOGY, MARKETING CHANNELS, ADDITIONAL FINANCING, ETC., AND TO FULFILL TRAINING FUNCTION. SOME FOREIGN COMPANIES AND COUNTRIES ARE STARTING TO COOPERATE ON THIS BASIS WITH PRIMARY OBJECTIVE OF EXPANDING EXPORT MARKETS AND SECURING SOURCES OF NEEDED IMPORTS. PROPOSED TECHNICAL ASSISTANCE PROGRAMS OUTLINED ABOVE WOULD HELP PINPOINT MUTUAL U. S. ANDEAN INTERESTS AND TRADE OPPORTUNITIES SO THAT U. S. CAN COMPETE ON MORE EQUAL TERMS WITH JAPAN AND OTHER COUNTRIES IN THIS MARKET. PAREN-

THETICALLY, FAVORABLE RESPONSE TO THESE COOPERATION REQUESTS WOULD BE GOOD FOLLOW-UP GESTURE TO SECRETARY ROGERS' VISIT TO JUNTA HEADQUARTERS.

8. ACTION REQUESTED: COMMENT AND INSTRUCTION REQUESTED ON PROGRAM APPROACH.
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*** Current Handling Restrictions *** n/a

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 14 JUN 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: collinp0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973LIMA04064
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: n/a
Errors: n/a
Film Number: n/a
From: LIMA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730619/aaaajasn.tel
Line Count: 235
Locator: TEXT ON-LINE
Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 73 LIMA A-121, 73 LIMA A-136
Review Action: RELEASED, APPROVED
Review Authority: collinp0
Review Comment: n/a
Review Content Flags:
Review Date: 15 JAN 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <15-Jan-2002 by martinjw>; APPROVED <22 FEB 2002 by collinp0>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: <DBA CORRECTED> jms 980206
Subject: ANDEAN PACT: PROPOSAL FOR U. S. ASSISTANCE FY 74
TAGS: EAID, BL, CI, CO, EC, PE, VE
To: ARA
BOGOTA
CARACAS
LA PAZ
QUITO
SANTIAGO
SECSTATE WASHDC

Type: TE

Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005